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Financial markets in Europe: toward 1992

Europe is abuzz with talk of 1992. After that year, if all goes to plan, 330 million people will be free to reside and do business anywhere in the twelve countries of the European Community (EC). Forward-looking European companies are assessing how green the grass may be on the other side of existing national "fences" — and making plans to protect home turfs from encroachers. The EC political agenda, long topped by farm subsidies, now sports proposals to create a European central bank and wrest concessions from outsiders — Japan, in particular — in return for access to a unified European market.

To some, Europe can withstand competition from U.S. and Japanese companies only with a unified industrial base that reaps economies of scale in research, production, and distribution. Others cheer Project 1992's reliance on market forces and its expansion of individual freedoms to participate in business and the professions Communitywide. An end to regulatory and tax barriers to mobility and trade should cut costs to consumers, open up job opportunities, and allow faster economic growth. This would revitalize industry and help overcome "Eurosclerosis."

Yet others see Project 1992 as bringing the EC close to the ideals of the 1957 Treaty of Rome: harmonious economic and social development with close political relations among states. These ideals got short shrift so long as attention focused on adding new members, piecemeal regulatory harmonization, and income support for farmers, declining industries, and less developed regions. Today, boosters of the EC are pleased with the policy discipline achieved through the European Monetary System (EMS), which has induced convergence of economic performance in all full participants (see Table 1).

Enthusiasts believe that the EC is ready for a next, major step. Yet the task is Herculean. First, Project 1992 involves wholesale pruning of national regulations catering to parochial customs and vested interests. Second, it would limit the role of the state, contrary to tradition in much of Europe. Third, the

Table 1

Economic growth and inflation
average annual percent change, 1985-87

	Real GDP	GDP deflator
Belgium	1.8	3.7
Denmark	2.2	5.1
France	2.0	4.3
Germany	2.2	2.5
Ireland	1.9	4.4
Italy	2.8	7.5
Luxembourg	2.9	2.2
Netherlands	2.3	0.5
*United Kingdom**	3.4	4.6
*Greece**	1.2	17.5
*Portugal**	4.1	17.2
*Spain**	3.6	8.4
EC 12 average	2.6	5.2

*Nonparticipants in the ERM.

Project requires reform of tax regimes and government spending, which are more distorting of trade, mobility, and allocation decisions than in the United States or Japan.

A year or two ago most observers of the European scene were skeptical of Project 1992. After all, other visionary proposals from the Commission of the European Communities — the EC's executive body — have gone nowhere. This year, however, the idea of a unified, competitive market has fired the imagination of business leaders and gained popularity in many circles. Governments now have adopted a number of key proposals in the face of nationalist and special-interest concerns. No longer is Project 1992 doomed to fade as yet another idea whose time has not come. Instead, enough barriers stand to tumble to make a dramatic difference to the European landscape of the mid- to late-1990s.

Following a brief review of Europe's general approach to integration, this article focuses on a single aspect of Project 1992 — Europe's financial markets. Much remains to be done: Communitywide consensus must be reached on legislation now pending or in draft; countries then must respect timetables and implement the measures in spirit as well as letter; and financial players must adapt to the new rules and the more competitive environment ahead.

Financial integration involves major risks. Obstacles to capital flows and financial service provision could come down before tax and regulatory differences are adequately addressed, driving investment capital toward countries with the lowest tax and regulatory burdens. This, in turn, could trigger regulatory backlash and new capital controls on the part of countries affected adversely. Another risk is that EMS participants will disagree on policy objectives, notably for economic growth and inflation. Exchange and interest rate instability might ensue, tempting destructive ventures in monetary "independence." The credibility of Project 1992 could be strained and, in the extreme, the unification of Europe's financial markets be postponed indefinitely.

The integration process

Europe's initiative to break down all remaining barriers to economic integration is the most ambitious undertaking since the establishment of the EC in 1957. In June 1985 the heads of EC governments approved a Commission White Paper detailing some 300 measures needed to unify the European market. Six months later the Treaty of Rome was amended to reiterate this objective and facilitate its achievement. By the first half of 1987 the amendment, known as the Single European Act, had been passed by the national parliaments. It calls for the creation, by December 31, 1992, of "an area without frontiers in which the free movement of goods, persons, services and capital is ensured." This objective resembles that of the original Treaty of Rome, which had mandated "the abolition of obstacles to the free movement of persons, services, and capital" by December 31, 1969.*

Nevertheless, on most issues the Act made two significant innovations in EC legislation and practice: qualified majority rule and mutual recognition. Whereas

*In the early 1960s, capital transactions linked to the exercise of basic freedoms established by the treaty (such as commercial credits, direct investments, and personal capital movements) were liberalized. However, treaty signatories had pledged to liberalize financial services and capital flow restrictions only "to the extent necessary for the proper functioning of the common market." They were entitled to reimpose controls, subject to authorization, if capital movements disturbed their own financial markets. During the stormy 1970s and early 1980s, ground was lost because the EC allowed several countries to make extensive use of safeguards, while failing to persuade them to make progress on financial integration. Still, Britain scrapped exchange controls in 1979. More recently, several countries — notably France, Greece, Ireland, and Spain — have unilaterally cut back interest rate controls; and Britain and Portugal have removed other barriers to competition in financial markets. In 1984 the EC membership agreed to tighten recourse to safeguard clauses and all exceptional arrangements subsequently were terminated.

most Commission proposals formerly had to be approved by a unanimous vote of the European Council, the amended treaty allows this gathering of ministers from the twelve countries to pass much legislation by a qualified majority (defined as 54 of 76 weighted votes). Now it takes more than two of the larger countries (with ten votes each), or more than four of the smaller (three-to-five votes each), to block Commission directives — quite a change from before, when any country, however small, could veto proposals of any importance.

Mutual recognition bypasses the tedious approach of trying to conform national regulations and procedures to common, EC-wide standards. The Council now is free to rule that the norms in force in one country are equivalent to those applied in another; no longer need integration stand hostage to endless discussions of how to harmonize, say, product labeling or emission control standards.

The 1985 White Paper also offered a convenient guide to the most blatant obstacles to intra-Community trade in goods and services. These include border controls, discriminatory government procurement practices, subsidies to industries and farmers, technical standards and regulations, unfair business practices, and state-owned or government-sanctioned monopolies and oligopolies.

In principle, an end to these obstacles, by opening up economies of scale and weeding out inefficiency and monopoly profits, would put downward pressure on costs and prices, boost output, and reduce unemployment. How large the benefits would be in practice is much less clear. They surely would depend on rest-of-world developments and the macroeconomic policy stance. Assuming unchanged policies, the European Commission has published rough estimates that full implementation of Project 1992 could lower average EC consumer prices by 6% after six years, raise real GDP by 4.5%, and create almost 2 million jobs — relative to levels otherwise prevailing. With more expansionary fiscal and monetary policies, job creation might reach five million and the GNP gain some 7%. But inflation would run higher too, albeit distinctly less than without Project 1992.

Three years have passed since the White Paper's program was endorsed officially. The tally of approved legislation is up to about one-third of the eventual total. This is more than many had expected. Still, from the 1985 launch date the calendar now is nearly halfway to December 1992. Moreover, many important directives are among the two-thirds not yet approved or submitted.*

*Directives already passed would, *inter alia*, simplify border formalities, ease trade in live animals, align laws on auto and truck emissions and dangerous chemicals, facilitate the use of mobile telephones, and grant mutual recognition of prospectuses. In addition, at their June summit, the EC ministers agreed on a schedule to abolish capital controls, eliminate licensing and quota restrictions on trucking, recognize all university diplomas, and fix common rules for food additives and packaging.

Sensitive issues yet to be settled include border controls on individual travelers, largely motivated by differing policies toward terrorism and immigration and by attempts to enforce national gun and drug laws. Initiatives likewise are awaited to curb protectionist government procurement policies; these create major production and trade distortions since the affected outlays run as much as 10% of European GDP. Commission directives approved over a decade ago to open up procurement mostly have been ignored, despite exempting four major sectors (telecommunications, energy, transport, and water supply) in deference to nationalist and strategic considerations.

Among the plethora of topics for decision, tax harmonization promises to be particularly thorny. This comes as no surprise, following an already long history of vain Commission endeavors to bring value added (VAT) and excise taxes into line. Besides, fiscal issues are among the very few that still require resolution by unanimity under the Single European Act, reflecting the profound disagreements extant at the time the Act was drafted. Those disagreements remain: countries that tax alcohol heavily or exempt "necessities" from VAT, for instance, do so out of deeply held beliefs.

Time is short to clear away the outstanding issues of Project 1992. Though Council directives carry the force of law, most grant member countries several years to bring national legislation in line and implement necessary administrative changes. Governments have been known to drag their feet, and the Commission or private parties often have taken them before the European Court to compel action. Council passage of directives therefore cannot be deferred until late 1991 or 1992 if they are to be practically operative by January 1993.

One way to get the 1992 agenda back on track might be to set priorities among the two hundred or so pending legislative items; concentrate on such critical issues as taxes, subsidies, and government procurement; and ignore the rest for now. However expedient, this course would be risky. The Commission has insisted on a "package" approach to the directives, admitting no exceptions. Its intransigence may be working as intended — encouraging members to drop their opposition to particular directives in the knowledge that other countries would be under pressure to cease opposing directives they, in turn, dislike. Abandoning the package approach now could lead the EC down a slippery slope: postponement of the least important directives could be followed by postponement of increasingly more important ones. It is preferable to stick to the present approach, even if not all the work can be completed on time — so long as the direction is unchanged and the message is clear to Europeans and non-Europeans alike.

Financial market integration

Interest in financial liberalization has reawakened because the internationalization of finance and the growth in intra-European trade have rendered controls undesirable and ineffectual. The 1985 White Paper sought complete liberalization of capital movements, including those of a purely monetary nature not linked to commercial transactions. It also aimed to open up the cross-border market for financial services by removing barriers to entry and the free circulation of financial products. The objective was market integration to bring down the costs of auto insurance, mortgage loans, consumer credit, and brokerage services, which in many countries are inflated by feeble national or international competition. To this end, 27 directives were proposed. Ten have been approved; twelve are being discussed; and five are being drafted.

The aspect needing least legislative work is that of *capital controls*. Countries already have made considerable headway or have pledged it under a recently

Table 2

Capital controls

by type of transaction

	Securities		*Loans*		*Other*	
	Primary market	*Secondary market*	*Trade related*	*Other*	*Deposit accounts*	*Other**
Belgium**	F/A	F	F	F	F	F
Denmark	F	F	A	A	A	A
France	R/A	F	R	R	F/R	F
Germany	F	F	F	F	F	F
Ireland	A	F/R	F/A	F/A	F/P	F/P
Italy	A/P	F/R	F/A	A	F/P	F/P
Luxembourg**	F/A	F	F	F	F	F
Netherlands	F	F	F	F	F	F
United Kingdom	F	F	F	F	F	F
Greece	A/P	A/P	A	A	R/P	R/P
Portugal	R/A	R/A	A	A	A	A
Spain	A	F/R	A	R/A	F/A	A

The first code refers to capital inflows, the second to outflows.
F Free of controls.
A Subject to authorization.
R Subject to various restrictions as to maturity, size, and use of funds.
P Prohibited, or subject to authorization that is usually not granted.
*Money market instruments such as Treasury bills.
**A dual exchange market is maintained.
Source: European Commission.

approved directive. Britain, Germany, and the Netherlands have freed capital flows completely (see Table 2). Five other countries are to follow suit by mid-1990: Belgium and Luxembourg abolishing their two-tier exchange market; Denmark eliminating prior authorization for certain transactions; and France and Italy allowing residents to hold foreign bank accounts and foreigners to tap their domestic credit markets. Four other nations more reliant on capital controls have been given more time to remove them: until 1992 for Spain and Ireland and until the mid-1990s for Greece and Portugal. Capital flows are to be freed not only within the EC but also with countries outside: restricting movements between, say, Italy and a non-EC member, such as Switzerland, is pointless if such flows can be mediated by another EC country, such as Germany or Britain, that is unwilling to impose restrictions on flows with Switzerland.

Efforts to let financial firms operate freely across the EC have focused on three areas: banking, securities, and insurance. With respect to *commercial banking*, the Commission has circulated a directive to allow banks to exercise across EC borders the same banking and securities powers that are permitted them at home. A single-license approach would be adopted: banks' operations throughout the EC would be licensed, regulated, and supervised for the most part by their home country — allowing a Dutch bank, for example, to branch into Italy without having to request permission from host authorities or having to post capital separately at its Italian branch. Given the diversity of national regulatory standards, however, the Commission also has proposed harmonizing accounting norms and essential prudential regulation, such as capital adequacy and limits on equity holdings in nonfinancial firms. Its capital standards recommendation parallels the one recently agreed by twelve central bank governors from the world's leading banking countries — including seven from the EC.

Drafting has begun on a directive covering *investment services*. As in banking, any securities firm reportedly would be able to open branches and market an agreed list of services in other countries. Home-country supervisors would be responsible for the essential regulations such as capital adequacy and the acceptability of major shareholders, while host-country rules would apply to the remainder. The Commission already has submitted a directive banning in-

sider trading and apparently will propose soundness and competence criteria. The EC currently supports the electronic linking of national stock exchanges by subsidizing the exchange of market information in the hope of spawning a screen-based integrated market.

For *insurance services*, the Council recently approved a directive to open up the market for property and casualty insurance for large corporations with home-country control and minimal harmonization; later, in the 1990s, medium-sized contracts will be opened up. Agreement was facilitated by the fact that domestic insurers of major risks long have used techniques such as fronting, coinsurance, and reinsurance to create an international insurance market centered in London. But the Commission has yet to produce directives covering the high-growth potential fields of life and automobile liability insurance. These may not be liberalized before the turn of the century, in part because the European Court is conditioning its approval on adequate harmonization of the consumer protection aspects.

Implications for governments

The legislation on financial services being drafted in Brussels or pending approval by the Council meets resistance from national governments because it limits sovereignty in several respects, notably concerning mutual recognition, reciprocity, and taxation.

To begin with, the principles of mutual recognition and home-country control would increase competition not only among firms across the EC but also among the different national *regulatory systems*. These systems would be under great pressure to converge, since regulations that limit the ability of a country's own banks to offer certain products — say, the French ban on variable-rate mortgages or the German one on money market funds — disadvantage those banks relative to banks from other EC countries that allow these products. Discriminatory rules and incentives, such as limits on the foreign content of pension or insurance funds or obligations on banks to place money in public securities, likewise would not survive because foreign-owned firms could not be required to abide by them. Some governments, having relied on barriers to trade and market segmentation to enforce credit controls or help finance deficits, are therefore reluctant to support the Commission's proposals.

These principles by no means would deprive national regulators of all discretion. Host countries would oversee risk-taking in the securities markets, control bank liquidity, and set monetary policy. Of course, virtually any financial practice could be deemed to affect monetary policy: central banks could argue that authorizing money market funds to compete with bank deposits or banks to pay interest on demand deposits would destabilize the narrow monetary aggregates — as happened in the United States. The Bundesbank further has argued that allowing money market funds (exempt from reserve requirements) would distort competition at the expense of banks. Yet the surge in deregulation suggests that a growing number of European countries understand that trying to keep a lid on financial innova-

tion damages their own financial centers. Still, even if the proposed directives are adopted, the European Court likely will be hearing, for many years to come, cases in which financial firms challenge local interpretation of the principles of mutual recognition and home-country control.

Ending barriers to the provision of financial services by intermediaries from member states implies the necessity for a *common policy* toward firms headquartered outside the EC — much as the elimination of customs duties on intra-EC trade in the early 1960s brought a common tariff against imports from outside the Community. This is a divisive issue. Hitherto, some countries have been very open to non-EC firms and foreign capital, while others have not; the disparity is not sustainable once entry into one country automatically allows entry into others.

Under the proposed directives on banking and securities, existing *subsidiaries* of non-EC firms are to be treated as Community undertakings, subject to a single license and supervision by the member country in which they are incorporated. *Branches* of non-EC banks, however, would remain under the jurisdiction of the authorities in each of the countries in which they operate. This structure could penalize non-EC banks: to enjoy the freedoms of EC banks, they would have to set up subsidiaries within the EC; that could mean significantly higher borrowing costs, since subsidiaries must hold their own capital whereas branches can draw on the full resources of their parents.

The proposed directives also authorize the Commission to deny entry to firms from a non-EC country that fails to grant reciprocal treatment to firms from each of the twelve EC member countries. Moreover, there are indications that such *reciprocity* will be applied to foreign-owned commercial and investment banks already operating in the EC.

Governments are beginning to realize, however, that reciprocity could open a Pandora's box. Some countries interpret reciprocity narrowly as requiring "national," nondiscriminatory treatment for EC firms operating abroad — that they be treated the same way as domestic firms. Other countries interpret it broadly as requiring that EC firms abroad should be extended the same rights as foreign firms operating in the Community. This latter definition could lead, for instance, to a demand that Japan and the United States give powers to banks as wide as those typically granted in the EC. Further, it might force Britain or Luxembourg, say, to exclude existing or new Japanese banks if Portugal or Greece felt that any of its banks did not have reciprocal access to the Japanese market. And U.S. banks might be handicapped within the EC because the United States limits interstate banking and restricts banks' equity holdings in nonfinancial enterprises.

Another concern to governments is that financial market integration will force major changes in *tax systems*. At present, the treatment of interest and dividend income, securities transactions, capital gains, and bank deposits varies a great deal from country to country. For example, Spanish depositors cannot escape taxation on interest income earned at home because of a withholding tax; nor can French depositors because banks in that

Table 3

Withholding taxes

percent of interest and dividend income

	On interest paid to		*On dividends paid to*	
	Residents	*Nonresidents*	*Residents*	*Nonresidents*
Belgium	25	25	25	25
Denmark	0*	0	30	30
France	**	0-51	0	25
Germany	0***	0***	25	25
Ireland	0-35	0-35	0	0
Italy	12.5-30	12.5-30	10	32
Luxembourg	0	0	15	15
Netherlands	0*	0	25	25
United Kingdom	25	25	0	0
Greece	****	49	42-53	42-53
Portugal	30	30	12	12
Spain	20	20	20	20

Rates indicated are subject to restrictions and exemptions.
*Banks report interest income to the tax authorities.
**Recipients can choose to pay 27% or 47%, depending on the savings instrument, or to lump interest income with other incomes. Banks report interest income to the tax authorities.
***Banks do not report interest income to the tax authorities; a 10% withholding rate will go into effect starting next year.
****Corporations pay 25%; individuals pay 8% plus an amount linked to graduated rates applicable to income taxes.
Source: Arthur Andersen.

country report interest income to the tax authorities (see Table 3). However, they could do so on accounts in, say, Luxembourg or the Netherlands because neither imposes withholding taxes on interest income accrued by residents of other EC countries and further does not report this income to foreign tax authorities. Nonresidents' dividend income poses a similar problem in Ireland and the United Kingdom.

Differences in tax treatment and reporting requirements are offset to some degree by several factors: remaining capital controls, particularly in southern Europe; the fact that most European retail banks do not actively solicit foreign deposits; the local nature of government and corporate bond markets, which deters foreign investors; and the paucity of cross-listings of European companies on the national stock exchanges. However, these offsets will diminish as markets integrate and intermediaries ply their trade throughout the EC. Awareness of the problem blocked agreement earlier this year on the removal of remaining capital controls — until all the countries further agreed that the Commission should develop proposals to reduce tax evasion in time for a vote by the middle of next year.

Basically, the choice is between changing bank secrecy laws or harmonizing withholding tax rates throughout the EC. The key country to persuade is Luxembourg: if it refuses to amend its secrecy laws or impose a common withholding tax, it would tend to become Europe's leading financial center by virtue of its tax haven status alone. This would not, of course, be acceptable to its EC partners. Yet harmonization may not solve the problem, even if Luxembourg and other holdouts succumb to pressure: unless the agreed withholding is quite low (10% or less), there will be an incentive for tax-flight capital to leak outside the EC — to Switzerland, in the first instance, or such havens as Liechtenstein.

There likewise are major intra-EC variances in capital gains taxes and stamp duties on securities transactions. These too will come under pressure. Capital gains taxes on individuals range from zero in Belgium and Greece (and also in many circumstances in Italy and the Netherlands) to a hefty 50% in Denmark. Stamp duties range from zero to 0.5% of the value of stocks and bonds. As individual financial markets become interconnected by pan-European firms, these differences will encourage transactions to be con-

Table 4

Reserve requirements

as of mid-1988

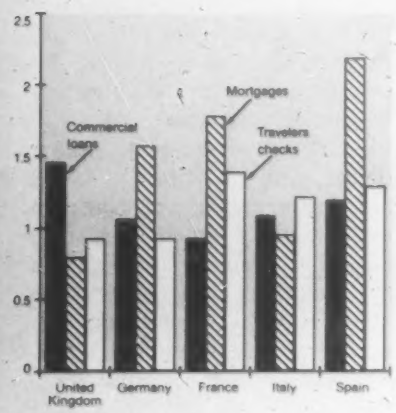
	% of demand deposits in banks
Belgium	0
Denmark	0
France	5.0
Germany	6.6-12.1
Ireland	10.0
*Italy**	25.0**
Luxembourg	0
Netherlands	***
United Kingdom	0.5
*Greece**	7.5
Portugal	15.0
*Spain**	18.5

*Required reserves are remunerated to some degree.
**Applied against the increase in deposits since May 1984; the effective level of required reserves is close to 20%.
***A small, variable, and remunerated reserve requirement was introduced in May 1988.

Chart 1

Prices of banking services

average of four lowest-priced countries = 1



Source: Price Waterhouse

summated via the least burdensome routes.

The taxation of monetary assets also varies greatly, as measured by banks' reserve requirements. Those on demand deposits, for instance, range from zero or close to zero in Belgium, Britain, Denmark, and the Netherlands, to 15% or more in Italy, Portugal, and Spain (see Table 4). As yet there are no plans to harmonize the requirements within the EC because they are viewed as instruments of monetary policy — not as a tax driving a wedge between deposit and loan rates. Nevertheless, as banking systems integrate, deposit and loan transactions will be diverted to banks that can offer better interest rates thanks to less onerous reserve requirements. This will put pressure on central banks — probably even on the Bundesbank — to cut requirements to a minimum and rely on other instruments of monetary policy.

Implications for financial firms

Liberalization and integration are unleashing intense competition and numerous mergers among European financial intermediaries. U.S. experience of banking deregulation in the 1980s has given a preview of what may come to pass. U.S. interstate banking barriers were relaxed about the same time that deposit rate ceilings were phased out, opening new markets to banks just as they were forced to compete more for their customers' funds. Many banks subsequently merged, often across state lines, to pool capital and reach a wider customer base. Others narrowed their focus, specializing to serve selected customers — be they consumers, middle-market businesses, or large corporations. Virtually all banks sought to cut costs by paring payrolls and branch networks and by adopting explicit pricing for services.

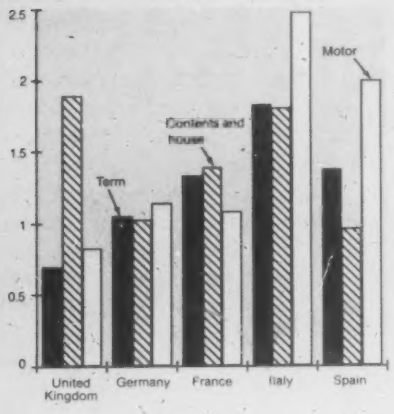
Financial intermediaries in Europe now are shaping strategies for post-1992. Many are looking to expand across borders to compete in markets that are profitable, or can become so once no longer sheltered. A recent study prepared for the EC highlighted the opportunities, finding huge variations in prices for financial services from country to country (see Charts 1-3). These data suggest scope for migration of firms from northern to southern Europe. But there are opportunities for expansion in other directions too. Best placed are firms unburdened by costly labor and managemnet practices, and possessed also of a solid customer base and ample capital. Expansion offers these firms the possibility to widen their product lineup and diversify their assets, liabilities, and revenues.

Cost advantages could be gained by *broad financial product lines* using common distribution networks, funding facilities, managers, and support services. A first wave of product broadening is under way in Europe as different types of credit institutions invade one another's traditional turf. A second wave, involving insurance and securities firms as well as different types of banks, is bound to intensify as integration pressures costs. Insurance and securities firms are particularly interested in distributing their products through bank branches to banks' traditional customers. Some banks, in turn, are attracted by insurance companies' investment management abilities and securi-

Chart 2

Prices of insurance services

average of four lowest-priced countries = 1

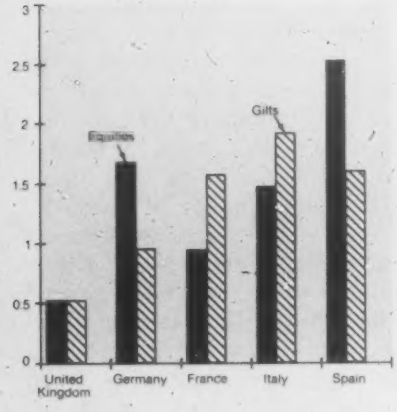


Source: Price Waterhouse

Chart 3

Prices of institutional securities services

average of four lowest-priced countries = 1



Source: Price Waterhouse

ties firms' research and product innovation skills.

Cross-border expansion also can yield *diversification* benefits. As firms span broader geographic markets, their assets, liabilities, and revenues normally become more diversified. This will be important for banks dependent on such industries as trucking, food, and insurance, which stand to lose the protection afforded by present intra-European barriers. The regional impact of European integration also has implications for financial institutions: over time, for example, cost factors may concentrate European agriculture in the southern regions that enjoy mild weather and cheap labor; in turn, some banks located in these regions could become as farm-dependent and as vulnerable to weather, commodity, and policy cycles as are many banks today in the U.S. Midwest. In principle, diversification through growth can forestall this risk; still, the troubles of some U.S. banks suggest that growth or size alone does not prevent a bank from concentrating its risks unduly.

Cross-border expansion often is thought to promise *economies of scale*. These, however, may elude banks and other financial firms. For them, labor and interest costs do not fall appreciably with volume and typically dwarf the fixed costs associated with offices, computers, and trading floors — the opposite of the variable/fixed cost balance seen in most manufacturing. Adding branches is no sure formula for scale economies in financial services. Concentration in high-volume lines of business may yield savings but, more often than not, they are offset by added costs in other functions; U.S. banks, for example, usually seem to exhaust size-related economies at a fairly low level of assets ($50 million).

The other presumed advantage of scale — much in vogue in Europe — is the *protection* that size may afford against hostile takeover. Preemptive mergers, however, are not much defense in a world in which size alone poses less and less of a financial obstacle to predators. Today, admittedly, a financial firm reaching the stature of national giant may be able to call its government in aid against takeover; but this may not apply in tomorrow's Europe. Besides, unless a merger embodies a clear vision for improved profitability, the combined firm may wind up more vulnerable than before.

When deciding how to expand abroad, firms may choose among several avenues, ranging from the direct export of financial products without a physical presence, through cooperative agreements with local distributors, to full representation with branches or subsidiaries, whether *de novo* or by merger or acquisition. The appropriate strategy will depend very much upon the nature of the market — wholesale or retail — into which a firm wants to expand.

Europe's *wholesale* financial markets already are quite competitive. Margins tend to be thin and unrealized profit opportunities few. Conceivably, the lifting of capital controls, the linkage of capital and securities markets, and the expansion of European multinationals could lead to a surge in demand for financial services that only large firms could supply. More realistically, no more than a gradual rise in demand is in the cards. Since this could be accommodated handily by the many institutions

already active, bank mergers aimed at achieving the critical mass necessary to participate in the wholesale markets will make sense only in a limited number of cases.

By contrast, Europe's *retail* financial markets may be headed for quite a shake-up. In several countries these markets are but little competitive. Of course, breaking into a country's consumer banking or auto or life insurance markets is expensive because a retail network of offices or agents is required.*

A network can be established by opening new branches or purchasing a competitor's. New branches allow full control over product quality but take a major investment of effort and time. Few financial firms are likely to follow this route, given the importance of speed and the already overbanked nature of most European countries.

Purchasing a network has its own drawbacks. In such countries as Italy and, to a lesser extent, France and Germany, many banks are owned by federal or provincial governments or are cooperative associations. These banks are not for sale. The attempt to acquire even privately owned institutions can stir nationalistic feelings, precipitate battles for control, and involve a final purchase price well in excess of the target's book value; this "goodwill" excess must be deducted from core capital (as defined by the new BIS-sponsored capital standards), leaving only banks with ample capital as potential buyers. Besides, firms for sale frequently are financially weak and costly to turn around. It often takes many years to digest an acquisition, tying up management to the detriment of other business goals.

Most financial firms therefore may seek *friendly alliances* ranging from agreements to cross-sell products to joint ventures and, in extreme cases, outright mergers. Because of their limited scope, marketing agreements are easiest to negotiate and also, if desired, easiest to dissolve. For example, a British (home) building society and a French government-owned bank might agree to market the former's mortgage products using the latter's client lists; no integration of the two firms' widely different management structures would be needed — a key advantage in the short term, but possibly not cost effective beyond a time. Joint ventures are best suited to firms having medium-term, well-defined objectives for cooperation. Common ownership is in order when long-term, deeper, and more general forms of cooperation are sought. Large financial concerns, if bent on merger, do best to start with mutual shareholdings, which allow the partners to test the waters while keeping the option of aborting the merger before it is too late.

These considerations suggest that competition in retail financial services will gradually increase throughout the EC as legal impediments are removed. Yet no magic wand can be waved in Brussels to make the process easy, even assuming that EC governments reach early agreement on the many issues still unsettled. In sum, the full benefits from abolition of Europe's bar-

*In the absence of such a network, customers might possibly be enticed to bank via automatic teller machines or buy mail-order insurance and money-management products. In practice, however, automatic tellers are costly and need a maintenance force, and field agents are required to handle insurance claims. Besides, for financial services, the European public is attached to the personalized attention that a bank with a local presence can provide.

riers to financial services provision will take long to materialize.

Implications for London

Traditionally, wholesale banking and securities trading have tended to gravitate to a single location in any given nation, region, or continent — "the" financial center. Such centers develop because a large scale of operation brings costs down and gives depth to markets by enhancing the liquidity of traded assets. For Europe today, London is the center. Project 1992, however, adds to the possibility that London will lose its edge.

Hitherto, London's favorable tax and regulatory environment has attracted business away from Continental centers, where high taxes and restrictions — such as capital controls, entry limits, product regulations, fixed commissions, and queuing — have raised transactions costs. If the European countries now make steady progress toward economic integration and remove the tax and other measures that distort markets, the coming years could see a return of some financial transactions to the Continent — for example, in syndicated lending, reinsurance, and securities underwriting and trading.

Deregulation in centers such as Paris, Madrid, and Amsterdam, combined with some reregulation in London initiated by the Financial Services Act, is eroding remaining fiscal and regulatory differences. In addition, the cost advantage of trading in a single location is losing significance because the new technologies of screen-based trading, computerized clearing, and cheap telecommunications allow some markets to operate efficiently without all parties present in the same location. Finally, it is generally more efficient and less risky to conduct transactions in a particular currency in its domestic market: the natural supply and demand for investment funds in that currency spring from there, as do the latest bits of information about policy developments that affect prices and flows of assets denominated in that currency. Yet the potential flowering of the Continent's domestic markets need not sound London's death knell. Provided regulators do not impose onerous costs on dealings with investors from outside the EC, London will be a major international financial center for the indefinite future.

The principal threat to London's role lies, rather, in an eventual movement toward a single European currency issued by a European monetary authority. For now, the EC governments are having a hard enough time giving up as much sovereignty as they must in order to comply with the existing Project 1992 agenda. They are not ready to transfer authority over monetary matters to a supranational central bank. Indeed, despite much recent discussion, European integration is nowhere near the stage that can deliver monetary unification.

Some day, at least if Project 1992 is successful, conditions should come together to establish a European central bank in charge of a common currency. Selecting the policy-making location of that putative central bank obviously would be a decision of the highest political magnitude. Establishment of a common currency would set in motion gravitational forces that likely would steer Europe's financial transactions toward a center

close to the central bank's operational heart. Yet, as the example of the U.S. Federal Reserve makes plain, there is no necessity that the policy-making and operating centers of the central bank be in one and the same location: the Reserve Board lays down in Washington policy that is executed by the headquarters of the Federal Reserve's second district in New York. For Europe, politics will dictate the policy center. Market depth should properly point to the operating center. Provided its markets stay competitive, London could lay fair claim to become Europe's "second district."

Potential setbacks

Project 1992 promises to compromise the financial policy autonomy of individual EC members. Governments are likely to tolerate this only as long as each is satisfied with the results — particularly in job creation and economic growth. A perception that some countries are coming out ahead at the expense of others, or that it is possible to do better on one's own, could lead to acrimony and backsliding.

Participants in the exchange rate mechanism (ERM) of the EMS have grown accustomed to bending macroeconomic policy to the objective of maintaining a pegged exchange rate between their currencies and the ECU. An end to exchange controls combined with deeper monetary integration will heighten capital mobility and currency substitution: the share of domestic-currency deposits held abroad will grow as will the share of domestic deposits in foreign currencies. French corporations, for example, increasingly will hold mark accounts in Germany or France, and may invest their French francs in Germany. This will render the interpretation of money supply data increasingly difficult. Central banks may try switching to targets for domestic credit but, because of easy access to foreign credit, the predictability of links between this — or any other monetary stock or flow — and ultimate objectives, such as real economic growth or inflation, will worsen steadily.

Countries that are neither active EMS participants nor presently open to capital flows (Greece, Portugal, and Spain) will be able to exercise relatively more control over their monetary aggregates if they are willing to permit their exchange rates to fluctuate freely in response to interest rate differentials and the other factors that affect foreign exchange supply and demand. But, even in these countries, the integration of financial markets will intensify currency substitution and complicate the formulation and implementation of monetary policy.

Some countries may come to regret the loss of monetary autonomy and take steps injurious to the integration process. This could happen through failure to narrow sufficiently the sizable tax and regulatory differences now existing within the EC. Opportunities for financial intermediaries to arbitrage these differences away will grow as remaining exchange controls are lifted, firms from different countries reach out or team up to provide better services, and information and transaction costs are driven down by competition. Without substantial progress to approximate taxes and basic rules, capital could move within

Table 5

Real effective exchange rates

1980-82 = 100

	August 1988
Belgium	80.4
Denmark	110.4
France	102.6
Germany	106.0
Ireland	98.2
Italy	103.2
Luxembourg	n.a.
Netherlands	100.4
United Kingdom	94.7
Greece	78.7
Portugal	81.6
Spain	101.7

Table 6

Germany's trade balance

billions of marks, FOB/CIF basis

	Total	*With EC-member countries*	*EC members as % of total*
1983	42.1	18.7	44.5
1984	54.0	26.4	48.9
1985	73.4	31.6	43.1
1986	112.6	51.4	45.7
1987	117.7	62.3	52.9
1988			
*1st half**	118.4	78.4	66.2

*Annualized.

the Community in ways not all members will find acceptable.

Some governments may not tolerate the consequences of portfolio and direct investment capital leaving in search of the lowest tax and regulatory burden. To neutralize unwanted pressure on exchange rates, central banks will be tempted to intervene. Intervention resources would appear at first sight to be rather ample. The foreign exchange reserves of the twelve EC countries have nearly doubled in ECU terms since the end of 1982, to around ECU215 billion excluding gold. At last year's meetings at Basle and Nyborg the EMS rules were altered to permit earlier access to common resources for intervention purposes. Nevertheless, central banks likely could not offset through intervention alone the kind of massive portfolio shifts that may occur. Pressure on the monetary authorities to forestall major deflationary adjustments in interest rates then could lead either to a realignment of pegged exchange rates or to the imposition of emergency capital controls. The latter would gravely damage the credibility of the integration process.

Yet another possibility that could derail Project 1992 is dispute over intra-European currency relationships and the desirable pace of domestic demand growth throughout the EC. The unification of markets for goods and services increasingly will pit industries in one country against those of the others. Industry's competitiveness in one country depends, in part, upon the strength or weakness of its currency relative to its EC partners'. As integration proceeds, the appropriateness of parities therefore will become a matter of ever-growing and legitimate concern.

The situation most likely to give rise to intra-EC tensions is that of Germany. The mark has appreciated little in real effective terms since the early 1980s — very little more than the currencies of France, Italy, and some other EC members (see Table 5). This minimal appreciation has done little to correct Germany's supercompetitive position relative to its EC partners. Its trade surplus with the rest of the EC has risen steadily from under DM20 billion in 1983 to an annualized DM78 billion in the first half of this year (see Table 6). These surpluses, should they keep accumulating, are bound to erode confidence in EMS parities and widen interest rate differentials vis-à-vis Germany. Moreover, they are likely to fuel debate on the willingness of the German authorities to subject industry to the competition unleashed by Project 1992.

The problem is compounded by the low growth of domestic demand in Germany — 2.5% on average during 1985-87 and perhaps 3% this year — even as its EC partners have expanded demand close to 4% per annum. It is widely held, in Europe and elsewhere, that the supply-side adjustments that integration will bring depend on demand-side policies supporting strong domestic growth. Unless the German economy picks up, tensions are bound to worsen.

Growth differentials vis-à-vis Germany acutely concern countries in the ERM. The reasons: the Bundesbank provides the anchor for monetary stability in the ERM; its EMS partners attempt to pursue policies consistent with agreed parities; and diminishing obstacles to trade

and capital flows within the EC tend to eliminate whatever few degrees of freedom from German economic policy the other countries have had. If Germany continues to set its monetary policy solely on the basis of domestic considerations, it will force the other countries to throttle down economic growth. That, in turn, could spoil the climate for cooperation so vital to the success of Project 1992.

Statistical appendix

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

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Effective exchange rates — industrial countries

–Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Nominal against 15 other industrial-country currencies																
1983	114.2	100.8	107.8	92.0	87.3	107.5	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.5	82.2
1984	122.3	97.3	112.9	94.2	84.4	107.3	86.7	88.1	103.6	88.9	103.9	77.4	110.5	93.9	97.8	84.3
1985	127.0	92.8	115.9	76.3	85.5	107.8	82.1	88.2	104.2	89.6	104.0	75.6	109.5	95.1	95.6	83.9
1986	106.0	87.6	150.1	61.4	87.4	116.1	82.9	80.7	107.8	92.9	110.3	73.4	118.1	99.7	89.2	81.6
1987	94.1	89.6	164.4	58.3	87.1	122.0	82.3	79.0	110.8	95.6	114.6	73.1	123.1	102.8	85.7	80.1
1987																
September	93.9	90.3	165.4	60.5	86.9	121.5	81.8	79.6	110.1	95.3	114.4	74.6	122.7	101.0	87.4	79.7
October	93.4	90.7	165.1	58.9	86.7	121.3	81.7	80.0	115.7	95.1	114.5	75.9	122.3	101.3	87.0	79.6
November	90.0	89.3	171.2	54.3	86.7	123.6	81.2	81.5	110.9	95.6	115.9	75.6	125.4	102.5	85.2	79.2
December	87.4	89.4	178.6	55.1	87.0	123.8	81.4	81.9	110.8	95.8	115.9	75.2	126.9	103.0	83.5	78.9
1988																
January	87.4	91.0	179.8	55.1	87.2	123.4	81.3	81.2	110.7	95.6	115.8	74.8	126.5	103.0	84.6	79.1
February	88.2	92.6	179.3	56.0	86.8	122.9	81.0	80.8	110.7	95.4	115.6	75.0	125.1	102.8	85.4	79.7
March	86.8	93.7	180.7	57.0	86.3	122.8	80.5	83.5	110.7	95.2	115.4	75.5	123.9	102.3	85.1	79.9
April	85.8	94.6	183.2	57.5	85.9	122.6	80.1	85.2	110.6	94.9	115.3	76.2	123.6	101.5	86.1	80.1
May	86.1	94.5	183.7	60.0	86.1	122.1	79.7	85.4	110.4	94.8	115.0	76.0	122.2	101.2	87.1	80.4
June	87.6	96.6	182.0	63.7	86.1	121.5	79.4	83.4	110.1	94.5	114.3	75.6	121.8	101.6	87.1	80.3
July	90.1	98.1	177.4	65.0	85.6	120.7	79.2	83.2	109.7	93.9	113.3	74.8	121.2	100.9	86.3	80.5
August	91.7	95.8	175.9	66.1	85.0	120.9	79.0	83.4	109.9	94.0	113.3	74.8	119.4	100.0	85.2	80.3
July 15	90.3	98.1	177.2	64.7	85.6	120.7	79.2	82.4	109.7	94.0	113.4	74.8	121.5	100.8	86.5	80.6
22	90.0	98.7	177.5	65.5	85.4	120.5	79.1	83.5	109.7	93.9	113.2	74.7	121.1	100.7	86.1	80.4
29	90.1	98.0	178.5	65.5	85.3	120.3	79.2	84.3	109.7	93.8	112.9	74.8	120.7	100.7	86.2	80.3
August 5	90.6	98.4	178.2	65.6	85.1	120.1	79.2	84.3	109.6	93.6	112.7	74.9	120.2	100.5	86.2	80.2
12	91.5	97.4	177.8	65.6	84.7	120.0	78.9	84.8	109.5	93.5	112.6	75.0	119.6	99.8	85.7	80.3
19	91.4	96.7	178.3	66.1	84.7	120.2	78.9	84.8	109.6	93.6	112.8	75.2	119.3	99.8	85.4	80.3
26	91.6	96.3	177.7	66.9	84.6	120.6	79.0	83.8	109.8	93.3	113.2	75.2	119.2	99.9	85.3	80.4
Real against 15 other industrial-country currencies																
1983	112.7	102.6	96.8	101.8	94.7	101.0	101.1	93.1	102.0	88.6	100.8	88.8	105.1	100.4	102.0	90.8
1984	119.6	100.1	97.8	106.4	97.0	98.0	101.8	90.2	103.0	85.9	97.8	91.0	100.1	99.2	100.5	96.0
1985	121.7	96.3	99.0	88.9	100.4	96.6	100.2	92.8	103.2	85.3	96.5	92.3	97.9	101.2	99.3	96.9
1986	100.9	93.3	122.1	78.4	103.7	103.5	102.5	87.3	106.4	84.5	101.3	93.8	105.4	107.4	96.9	95.9
1987	90.2	96.4	127.9	80.3	105.1	106.7	103.2	87.4	110.0	84.2	104.3	95.7	109.3	111.5	100.3	95.2
1988																
March	84.1	101.8	136.7	81.6	103.6	106.9	103.0	93.5	109.6	81.9	102.7	100.0	109.2	112.4	101.5	97.3
April	83.3	103.2	137.6	82.7	103.3	106.6	102.2	95.7	109.1	81.6	102.9	101.3	108.4	111.6	103.1	97.4
May	83.7	103.0	137.4	86.7	103.4	106.2	102.4	96.0	108.2	81.5	102.4	100.9	106.7	111.8	104.7	97.7
June	85.3	104.9	135.9	92.5	103.5	105.8	102.2	93.8	108.5	80.7	101.4	100.6	106.2	111.9	104.0	98.0
July	88.1	106.3	131.9	94.9	103.0	105.0	101.9	93.4	109.8	80.0	100.7	99.3	105.1	110.6	103.1	98.0
August	89.8	103.7	130.3	96.9	102.4	105.2	101.8	93.9	110.0	80.0	100.7	99.2	103.1	109.8	101.1	97.9
Real against 18 other industrial-country and 22 LDC currencies																
1983	114.9	104.6	100.4	102.0	94.4	100.6	100.8	93.1	102.1	88.2	99.5	89.2	105.1	100.3	101.9	91.0
1984	120.8	102.6	102.4	106.7	96.4	96.8	101.0	89.7	102.6	85.0	95.9	91.2	99.8	99.0	100.5	95.8
1985	123.3	99.0	104.2	89.6	99.9	95.6	99.7	92.2	102.8	84.5	94.8	93.0	97.7	101.1	99.7	96.7
1986	106.4	94.3	126.8	80.2	104.3	104.5	103.8	88.0	107.2	85.0	101.1	96.3	107.3	107.8	97.7	96.6
1987	96.3	96.5	131.5	81.9	106.2	109.0	105.7	88.9	111.5	85.4	105.2	99.2	112.2	112.4	101.2	96.5
1988																
March	89.5	101.0	139.2	83.9	104.4	108.7	105.3	95.0	110.9	82.9	103.3	103.2	111.7	113.2	102.4	98.3
April	88.7	102.2	140.0	84.1	103.9	108.2	104.3	97.1	110.3	82.6	103.4	104.5	110.7	112.3	104.1	98.4
May	88.9	102.1	139.8	87.8	103.9	107.6	104.4	97.3	109.3	82.3	102.8	103.9	108.9	112.5	105.6	98.8
June	90.3	104.2	138.6	93.3	103.8	106.9	103.9	94.9	109.4	81.4	101.5	103.3	108.2	112.5	104.8	98.9
July	92.8	105.8	134.9	95.4	103.2	105.8	103.2	94.2	110.5	80.5	100.5	101.7	106.8	111.2	103.8	98.8
August	94.6	103.5	133.9	98.0	102.6	106.0	103.2	94.7	110.7	80.4	100.4	101.7	104.8	110.4	101.9	98.6

Real effective exchange rates — developing countries

Index numbers, 1980-82 average=100.

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey
1983	71.6	86.0	89.3	104.9	79.0	98.5	117.3	95.0	96.2	97.6	113.9	96.1	101.8	94.6	120.8	94.2
1984	80.2	85.7	90.1	99.6	91.9	105.8	85.9	99.5	96.0	96.5	119.7	107.9	102.5	97.1	119.5	89.6
1985	71.0	84.8	79.5	85.3	90.4	96.5	92.7	103.3	93.7	88.7	115.7	114.1	95.2	94.3	106.5	88.8
1986	60.8	74.2	68.4	67.4	65.0	96.4	85.4	93.3	70.7	82.0	94.0	89.8	79.8	88.4	100.8	70.6
1987	53.3	73.6	65.1	63.1	66.7	107.7	60.2	89.2	54.7	84.0	87.9	86.5	73.3	93.6	97.2	62.6
1987																
September	53.5	71.0	65.3	62.8	71.5	121.1	64.6	90.2	54.8	85.0	88.4	87.1	73.6	97.7	99.8	61.7
October	53.9	73.3	64.3	62.2	73.6	120.0	65.0	90.0	54.8	85.7	87.1	89.2	73.1	98.1	100.6	60.8
November	49.3	73.9	61.7	60.4	73.6	104.9	64.2	89.1	54.4	85.3	84.9	87.4	72.0	94.9	99.3	58.7
December	49.0	74.7	61.4	60.1	67.3	80.2	63.3	87.2	53.0	84.3	82.3	87.8	70.2	96.1	99.0	62.4
1988																
January	49.4	76.9	59.1	61.6	72.6	76.6	62.9	85.8	53.3	85.3	81.5	87.5	70.0	96.6	100.2	62.9
February	50.9	78.0	60.7	57.2	79.0	85.9	62.9	85.9	53.9	88.0	80.7	87.6	70.8	97.5	101.4	63.4
March	51.7	76.9	59.8	66.8	80.1	104.2	62.7	86.5	53.2	89.0	80.2	87.4	70.3	96.4	102.0	64.4
April	52.3	78.3	59.1	66.3	79.7	121.4	62.2	86.6	52.7	89.3	79.7	86.4	70.3	96.0	102.5	65.1
May	55.1	78.0	59.9	64.9	80.1	131.6	62.3	88.4	53.0	90.3	79.4	87.7	70.2	96.2	104.4	64.6
June	56.9	80.7	60.3	65.1	80.8	144.9	63.1	90.2	54.0	92.4	80.7	90.7	70.5	97.3	105.4	65.0
July	60.6	80.8	62.7	66.3	82.9	193.3	64.2	90.8	56.0	95.3	81.6	94.4	71.4	97.4	106.9	66.0
August	59.7	72.9	65.6	57.9	84.1	173.5	65.3	91.3	56.3	97.0	80.9	95.0	72.4	97.5	109.9	63.6

International banking market size

at end of period, billions of dollars

	1982	1983	1984	1985	1986	1987			1988
					Dec	Jun	Sep	Dec	Mar
Gross claims									
Eurocurrencies, on residents and nonresidents	2 146	2 253	2 359	2 833	3 632	3 979	4 180	4 447	4 493
On nonbanks	634	665	694	822	1 051	1 178	1 216	1 298	1 340
On banks	1 512	1 588	1 665	2 011	2 581	2 801	2 964	3 150	3 153
In dollars	1 694	1 797	1 894	2 101	2 591	2 781	2 910	2 931	2 993
In other currencies	452	456	465	732	1 040	1 198	1 270	1 516	1 500
Domestic currencies, on nonresidents	398	402	402	506	670	754	801	914	915
On nonbanks	132	140	142	187	205	233	230	222	221
On banks	266	262	260	319	465	521	571	692	695
In dollars	211	221	215	215	222	212	220	221	216
In other currencies	187	181	187	291	447	542	581	694	700
Total	2 544	2 655	2 761	3 339	4 302	4 733	4 981	5 362	5 408
On nonbanks	766	805	836	1 009	1 257	1 411	1 446	1 520	1 560
On banks	1 778	1 850	1 925	2 330	3 045	3 322	3 535	3 842	3 848
In dollars	1 905	2 018	2 109	2 316	2 814	2 993	3 130	3 152	3 209
In other currencies	639	637	652	1 023	1 488	1 740	1 851	2 210	2 199
Gross liabilities									
Eurocurrencies, to residents and nonresidents	2 168	2 278	2 386	2 846	3 683	4 032	4 243	4 509	4 561
To nonbanks	432	479	497	585	699	764	780	814	839
To official monetary institutions	91	88	96	112	105	130	144	151	144
To other banks	1 645	1 711	1 793	2 149	2 879	3 137	3 319	3 544	3 577
In dollars	1 741	1 846	1 950	2 147	2 642	2 826	2 972	2 975	3 036
In other currencies	427	432	436	699	1 041	1 206	1 271	1 534	1 526
Domestic currencies, to nonresidents	250	260	280	377	489	572	638	737	738
To nonbanks	70	73	80	114	151	178	176	145	157
To banks	180	187	200	263	338	394	462	592	581
In dollars	116	135	146	169	187	189	212	216	207
In other currencies	134	125	134	208	302	383	426	521	532
Total	2 418	2 538	2 666	3 223	4 172	4 603	4 881	5 246	5 299
To nonbanks	502	552	577	699	850	941	956	959	997
To banks and official institutions	1 916	1 986	2 089	2 524	3 321	3 662	3 925	4 287	4 303
In dollars	1 857	1 981	2 096	2 316	2 829	3 015	3 183	3 190	3 242
In other currencies	561	557	570	907	1 343	1 589	1 697	2 055	2 057
Net market size	1 285	1 382	1 430	1 676	2 076	2 290	2 384	2 584	2 587

International bond issues and bank credits

millions of dollars

	1985	1986	1987	1988			Jan-Jun	
				Apr	May	Jun	1987	1988
By country of borrower								
Industrial countries	**225 885**	**273 653**	**253 718**	**28 414**	**26 378**	**26 014**	**122 660**	**170 533**
Australia	14 407	19 251	12 896	1 735	1 568	738	6 003	7 121
Austria	2 435	3 821	4 956	991	180	626	2 279	4 696
Belgium	3 269	5 042	4 537	81	561	474	2 484	2 583
Canada	17 184	23 752	11 356	1 570	1 429	1 941	5 759	9 567
Denmark	3 589	9 813	4 983	691	325	395	3 748	2 692
Finland	1 846	3 578	3 625	190	880	412	2 118	2 993
France	18 773	20 027	15 725	2 284	2 539	2 922	7 847	16 591
Germany	3 452	12 589	10 575	729	290	545	6 674	4 625
Greece	1 587	1 361	1 462	—	119	159	676	628
Ireland	1 881	3 281	2 289	150	43	227	1 069	982
Italy	11 033	12 723	13 551	707	691	466	4 147	4 537
Japan	21 269	35 283	46 523	4 070	2 415	8 214	21 731	24 548
Netherlands	2 299	3 215	5455	383	645	490	2 946	3 234
New Zealand	2 707	7 818	6 400	402	1 630	—	2 973	2 780
Norway	3 905	6 750	6 051	888	564	634	3 647	4 443
Portugal	2 382	2 503	2 159	362	—	—	1 346	1 051
Spain	3 913	7 083	1 932	250	82	329	896	1 604
Sweden	9 890	8 000	5 799	1 889	985	639	3 679	7 167
Switzerland	864	2 247	1 201	664	250	—	635	915
United Kingdom	25 424	24 109	33 025	4 681	5 915	3 318	17 004	29 751
United States	69 193	55 703	45 867	3 598	4 813	3 095	23 258	29 174
*Other**	4 582	5 703	13 350	2 099	454	387	1 940	8 856
Developing countries	**32 964**	**23 884**	**29 195**	**1 005**	**2 155**	**921**	**16 611**	**12 444**
Latin American countries	**8 115**	**3 395**	**10 789**	**94**	**130**	**214**	**8 163**	**4 203**
Argentina	3 700	17	2 305	—	—	—	—	—
Brazil	—	350	—	—	—	—	—	—
Chile	1 085	—	—	—	—	—	—	—
Colombia	1 052	240	137	—	—	—	50	1 000
Mexico	109	313	7 700	—	—	—	7 700	2 556
Venezuela	48	—	30	34	—	—	—	134
*Other***	2 121	2 475	617	60	130	214	413	513
Asian countries	**18 410**	**14 444**	**13 782**	**617**	**950**	**707**	**6 421**	**5 664**
China	3 192	3 336	4 678	324	520	97	2 049	1 702
India	818	1 795	2 359	82	120	15	960	1 147
Indonesia	451	1 343	1 770	—	30	—	835	330
Hong Kong	2 516	848	323	28	81	—	386	188
Korea	5 898	3 251	2 938	98	115	50	1 496	767
Malaysia	2 219	1 204	554	60	—	69	250	636
Thailand	1 497	1 676	348	—	21	375	169	696
Other	1 819	990	812	25	63	102	276	197
Middle Eastern and African countries	**6 439**	**6 044**	**4 624**	**294**	**1 075**	**—**	**2 026**	**2 577**
Algeria	1 450	1 344	471	—	56	—	241	389
Turkey	1 203	2 754	3 187	294	790	—	1 339	1 733
Other	3 786	1 945	965	—	228	—	446	455
Eastern European countries	**5 236**	**3 941**	**3 716**	**150**	**150**	**389**	**1 757**	**1 079**
Hungary	1 577	1 315	1 951	—	—	314	714	632
Soviet Union	1 489	1 821	1 003	50	150	—	662	273
*Other****	2 169	805	762	100	—	75	380	175
International organizations***	**20 635**	**19 896**	**20 814**	**1 624**	**1 072**	**2895**	**9 424**	**11 761**
By type of instrument and currency								
International bond issues	**167 756**	**228 106**	**180 788**	**19 548**	**19 055**	**24 001**	**100 783**	**119 312**
Eurobonds	136 731	188 747	140 535	16 249	15 476	20 964	85 389	95 688
U.S. dollar	97 782	119 096	58 070	4 805	4 858	10 910	31 235	38 439
Japanese yen	6 539	18 516	22 563	3 098	1 961	1 479	17 145	9 537
German mark	9 491	17 127	15 023	1 413	1 873	889	9 479	11 581
British pound	5 766	10 585	15 051	3 184	3 215	2 665	9 278	15 287
Australian dollar	3 118	3 381	8 826	1 111	989	578	6 052	4 168
European composite units	7 038	7 057	7 397	765	927	1 517	5 262	5 138
Canadian dollar	2 822	5 067	6 003	1 196	1 306	1 769	3 337	7 519
Other	4 174	7 918	7 602	679	347	1 157	3 601	4 019
Foreign bonds	31 025	39 359	40 253	3 299	3 579	3 037	15 393	23 623
Swiss franc	14 954	23 213	24 301	2 148	2 118	2 757	10 301	16 086
U.S. dollar	4 655	6 782	7 416	356	550	—	1 750	2 585
Japanese yen	6 379	5 223	4 071	484	481	143	1 726	2 625
Other	5 037	4 141	4 465	311	429	137	1 616	2 327
International bank credits	**116 964**	**93 269**	**126 655**	**11 645**	**10 701**	**6 219**	**49 869**	**76 505**
Eurocurrency credits	110 317	84 208	115 312	10 455	10 543	5 421	45 749	73 201
Foreign credits	6 647	9 061	11 343	1 190	158	798	4 120	3 304
Total	**284 720**	**321 375**	**307 443**	**31 193**	**29 756**	**30 219**	**150 651**	**195 817**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1985	1986	1987	1988						
	Dec	Dec	Dec	Feb	Mar	Apr	May	Jun	Jul	Aug
Eurodollar										
overnight	12.25	22.00	6.75	6.69	6.75	6.88	7.31	7.44	7.56	7.75
one month	8.00	6.50	7.06	6.69	6.69	7.00	7.44	7.69	8.00	8.31
three months	7.88	6.25	7.37	6.69	6.81	7.19	7.63	7.81	8.31	8.50
six months	7.88	6.12	7.50	6.75	7.06	7.44	7.81	7.94	8.50	8.88
twelve months	7.94	6.12	7.81	7.12	7.44	7.88	8.31	8.25	8.75	9.06
Euro-Canadian dollar										
one month	9.00	8.00	8.00	6.25	8.25	8.44	8.81	8.69	9.00	9.75
three months	9.00	8.12	8.12	8.37	8.37	8.75	8.94	9.06	9.38	10.00
six months	9.00	8.19	8.44	8.37	8.62	8.88	9.19	9.31	9.63	10.50
twelve months	9.00	8.31	8.87	8.75	9.00	9.25	9.63	9.63	10.00	10.75
Euro-French franc										
one month	12.50	10.12	8.75	7.25	7.81	8.00	7.31	7.25	7.13	7.69
three months	13.00	10.37	9.00	7.75	8.31	8.25	7.50	7.38	7.38	8.06
six months	13.13	9.75	9.25	8.19	8.44	8.38	7.63	7.63	7.75	8.44
twelve months	12.25	8.75	9.25	8.50	8.56	8.50	8.00	7.88	8.06	8.75
Euromark										
one month	4.75	5.12	3.25	3.31	3.25	3.31	3.31	4.25	5.00	4.94
three months	4.75	4.87	3.37	3.31	3.31	3.44	3.56	4.38	5.06	5.13
six months	4.75	4.81	3.50	3.37	3.37	3.63	3.81	4.50	5.31	5.38
twelve months	4.81	4.81	3.75	3.50	3.56	3.81	4.19	4.69	5.50	5.50
Euro-Dutch guilder										
one month	5.75	6.31	4.50	3.94	3.87	3.88	3.81	3.94	5.00	5.31
three months	5.75	6.00	4.62	4.00	3.87	3.94	3.94	4.31	5.25	5.44
six months	5.81	5.87	4.69	4.06	4.06	4.06	4.13	4.56	5.44	5.69
twelve months	5.88	5.81	4.81	4.12	4.19	4.19	4.44	4.81	5.50	5.81
Euro-Swiss franc										
one month	3.88	3.94	2.50	1.37	1.62	2.06	2.81	3.38	3.44	3.56
three months	4.00	3.94	3.00	1.69	1.87	2.25	2.88	3.44	3.88	3.75
six months	4.00	3.87	3.19	2.12	2.19	2.44	2.94	3.56	4.13	4.00
twelve months	4.06	3.87	3.25	2.69	2.62	2.75	3.13	3.63	4.25	4.00
Eurosterling										
one month	11.69	11.12	8.56	9.00	8.44	8.06	7.38	9.38	10.38	12.06
three months	11.81	11.12	8.81	9.31	8.56	8.31	7.75	9.94	10.81	12.25
six months	11.81	11.06	9.00	9.50	8.69	8.69	8.25	10.06	10.88	12.19
twelve months	11.69	11.06	9.31	9.75	9.00	9.06	8.81	10.25	11.00	12.19
Euroyen										
one month	7.13	4.56	4.00	4.37	4.00	3.81	4.06	4.13	4.38	5.00
three months	6.56	4.50	4.12	4.19	4.00	3.94	4.06	4.38	4.63	4.94
six months	6.50	4.37	4.12	4.19	4.12	4.13	4.25	4.56	4.75	5.00
twelve months	6.38	4.31	4.12	4.19	4.19	4.25	4.31	4.69	4.75	5.06
European currency unit										
one month	9.63	8.56	6.62	6.12	6.19	6.13	5.63	5.06	6.94	7.19
three months	9.63	8.44	6.75	6.31	6.37	6.38	6.00	6.44	7.25	7.44
six months	9.63	8.06	6.87	6.44	6.44	6.50	6.31	6.69	7.56	7.81
twelve months	9.63	7.31	7.00	6.62	6.62	6.69	6.56	6.94	7.69	8.00

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1985	1986	1987					1988		
	Dec	Dec	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
United States companies										
Eurodollar	9.68	8.67	9.99	10.95	10.41	10.21	10.31	10.24	9.79	9.78
Euromark	6.73	6.62	6.82	6.87	7.04	6.74	6.69	6.54	6.27	6.33
Swiss franc	5.49	5.70	5.43	5.50	5.83	5.56	5.71	5.57	5.66	5.61
European governments										
Eurodollar	10.52	9.91	11.41	11.81	11.63	11.63	11.64	11.48	11.38	11.50
Euromark	7.03	6.77	6.65	6.76	6.61	6.61	6.21	6.23	6.07	6.06
Swiss franc	4.91	4.51	4.38	4.39	4.54	4.15	4.11	4.05	3.71	3.88
European currency unit	10.23	10.20	10.43	10.46	11.10	11.06	10.84	10.85	10.56	10.35

Central bank discount rates

at or near end of month

	1985	1986	1987	1988					Current	
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep 7 1988	effective since
United States	7.50	5.50	6.00	6.00	6.00	6.00	6.00	6.50	6.50	Aug 9, 88
Canada	9.49	8.49	8.66	9.12	9.17	9.44	9.54	10.03	10.23	Sep 1, 88
Austria	4.00	4.00	3.00	3.00	3.00	3.00	3.50	4.00	4.00	Aug 28, 88
Belgium	9.75	8.00	7.00	6.50	6.50	6.75	7.00	7.50	7.50	Aug 26, 88
Denmark	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.00	7.00	7.00	7.00	8.00	8.00	8.00	8.00	8.00	May 16, 88
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	4.00	3.50	2.50	2.50	2.50	3.00	3.00	3.50	3.50	Aug 26, 88
Ireland	10.25	13.25	9.25	8.50	8.00	8.00	8.00	8.00	8.00	May 30, 88
Italy	15.00	12.00	12.00	12.00	12.00	12.00	12.00	12.50	12.50	Aug 26, 88
Netherlands	5.00	4.50	3.75	3.25	3.25	3.50	3.75	4.00	4.00	Aug 26, 88
Portugal	19.00	16.00	14.50	14.00	13.50	13.50	13.50	n.a.	13.50	May, 88
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	10.50	7.50	7.50	8.50	8.50	8.50	8.50	8.50	8.50	Apr 29, 88
Switzerland	4.00	4.00	2.50	2.50	2.50	2.50	2.50	3.00	3.00	Aug 26, 88
United Kingdom	11.31	10.81	8.37	7.88	7.38	9.38	10.38	11.81	11.81	Aug 31, 88
Japan	5.00	3.00	2.50	2.50	2.50	2.50	2.50	2.50	2.50	Feb 23, 87
New Zealand	19.80	24.60	18.55	19.70	17.30	16.95	16.90	15.90	16.30	Sep 7, 88
South Africa	13.50	10.00	9.80	10.80	11.80	11.80	12.80	n.a.	12.80	Aug, 88
Argentina*	5.00	11.19	17.59	19.10	21.58	23.04	27.80	13.13	13.13	Aug, 88
Korea	5.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Jul 10, 86
Philippines	11.50	9.64	9.25	9.09	9.10	n.a.	n.a.	n.a.	n.a.	
Singapore	5.00	5.00	5.00	3.50	3.50	3.50	3.50	4.00	4.00	Aug, 88
Thailand	11.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Sep 1, 86
Venezuela	12.94	12.79	12.49	12.92	12.90	12.96	n.a.	n.a.	12.96	Jun, 88

*Percent per month.

Day-to-day money rates

monthly averages

	1985	1986	1987	1988							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	8.27	6.91	6.77	6.83	6.58	6.58	6.87	7.09	7.51	7.75	8.01
Canada	9.15	8.30	8.45	8.55	8.43	8.46	8.42	8.71	8.89	9.03	n.a.
Austria	7.25	7.62	4.10	4.50	3.50	3.50	3.65	3.60	4.05	5.75	4.60
Belgium	6.60	5.09	5.09	5.02	4.16	5.10	5.05	4.28	4.62	4.85	5.08
Finland	n.a.	11.87	8.01	8.09	8.20	8.62	8.26	8.13	8.01	n.a.	n.a.
France	9.02	7.80	8.23	7.80	7.26	7.54	7.55	7.34	7.11	7.19	7.38
Germany	4.64	5.00	3.19	3.13	3.32	3.24	3.25	3.30	3.74	4.44	4.67
Ireland	9.62	13.00	7.50	8.00	8.50	8.25	8.00	7.38	n.a.	7.38	n.a.
Italy	14.75	11.42	10.25	10.60	9.87	10.14	9.95	11.41	11.27	11.00	10.10
Netherlands	5.75	6.19	4.25	4.12	3.87	3.94	4.00	3.94	3.69	4.55	5.00
Norway	12.50	14.00	14.02	13.88	13.87	13.91	14.03	13.51	13.00	13.04	n.a.
Spain	9.92	11.76	14.02	13.20	12.13	11.40	11.01	10.81	10.47	10.45	10.39
Sweden	11.83	8.89	8.43	8.75	9.37	9.61	9.71	10.58	10.55	10.46	9.85
Switzerland	2.00	1.12	0.50	0.50	1.00	1.25	2.13	2.25	2.50	3.38	2.25
United Kingdom	9.72	9.13	7.60	8.26	8.28	8.55	8.13	7.51	9.25	8.99	9.97
Australia	18.37	15.40	10.37	10.23	10.25	10.33	10.36	11.20	11.79	12.15	12.43
Japan	8.02	4.18	3.81	3.54	3.39	3.53	3.34	3.24	3.42	3.65	3.78
South Africa	12.50	8.50	9.76	9.75	9.25	9.85	10.00	10.90	11.34	11.75	n.a.
Argentina*	4.50	7.00	14.90	16.40	14.90	17.60	18.18	19.70	22.60	26.10	12.80
Brazil	352.23	8[illegible]05	401.42	543.31	655.13	530.86	814.16	678.42	806.89	1312.47	1056.54
Hong Kong	6.10	3.90	0.56	0.58	1.83	2.84	3.64	6.02	7.21	7.09	7.65
Korea	8.80	9.00	9.20	9.30	9.20	9.40	n.a.	n.a.	n.a.	n.a.	n.a.
Philippines	15.03	9.92	22.53	14.94	9.41	13.86	15.66	13.66	n.a.	n.a.	n.a.
Singapore	4.53	3.51	2.57	2.73	2.93	3.01	3.08	3.56	3.67	3.97	4.44
Taiwan	4.50	4.00	4.56	5.11	5.52	5.37	5.23	4.37	5.65	n.a.	n.a.

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1985	1986	1987	1988							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	7.28	5.83	5.84	5.80	5.78	5.87	6.15	6.67	6.59	6.95	7.54
Canada	9.24	8.24	8.41	8.37	8.32	8.53	8.87	8.92	9.19	9.29	9.78
Belgium	9.89	7.50	6.84	6.44	6.24	6.18	6.18	6.18	6.18	7.20	7.60
Ireland	11.15	13.60	8.69	8.34	8.76	8.33	7.83	7.17	7.47	7.61	7.76
Italy	13.10	10.00	11.66	11.37	10.78	10.78	10.61	10.82	10.63	11.06	n.a.
Netherlands	5.69	6.37	4.95	4.75	4.25	4.12	4.38	4.25	4.13	5.38	5.38
Spain	9.52	8.37	6.67	5.56	5.83	10.17	n.a.	10.25	n.a.	10.16	10.10
Sweden	12.49	9.20	9.05	9.20	9.32	9.58	10.70	10.29	10.37	10.50	10.55
United Kingdom	11.49	10.79	8.38	8.38	9.01	8.26	7.98	7.28	9.24	10.53	11.83
Australia	19.40	14.91	10.06	9.92	10.44	9.83	10.40	11.60	11.31	12.10	12.68
Japan	4.91	2.89	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38	2.38
New Zealand	17.62	19.69	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
South Africa	12.99	8.84	8.85	9.49	9.55	10.51	10.97	11.61	11.91	12.06	12.71
Brazil	379.77	149.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mexico	72.98	104.03	133.04	155.67	153.86	75.16	54.51	44.81	33.01	32.45	32.45
Philippines	16.45	9.55	13.35	13.52	11.57	13.88	14.94	15.10	14.36	14.50	n.a.
Singapore	2.94	2.10	3.23	2.92	2.97	2.97	3.02	3.36	3.90	3.87	4.11

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1985	1986	1987	1988							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	8.02	6.64	7.21	6.90	6.77	6.90	7.20	7.75	7.87	8.29	8.66
Canada	9.40	8.35	8.90	8.65	8.55	8.65	9.00	9.30	9.26	9.55	10.15
Belgium	9.89	7.60	6.97	6.65	6.37	6.26	6.24	6.24	6.24	7.35	7.65
France	9.12	8.37	8.56	8.06	7.44	8.25	7.88	7.31	7.31	7.44	8.06
Germany	4.80	4.85	3.65	3.23	3.28	3.40	3.55	3.60	4.40	5.20	5.35
Ireland	12.00	14.06	8.81	8.62	8.94	8.38	8.13	7.38	7.87	7.87	8.00
Italy	15.13	11.37	11.50	10.75	11.13	11.13	10.38	11.00	10.88	11.25	10.88
Netherlands	5.75	6.19	4.56	4.32	4.06	4.06	4.13	4.19	4.56	5.44	5.69
Portugal	20.71	16.07	14.34	13.97	13.43	13.03	n.a.	n.a.	n.a.	n.a.	n.a.
Spain	10.51	11.79	13.59	12.30	12.01	11.06	10.90	11.11	10.44	10.79	10.75
Switzerland	4.75	4.50	3.56	1.69	1.81	1.88	2.13	2.75	3.31	4.00	3.69
United Kingdom	12.75	11.25	8.94	8.31	9.38	8.56	8.31	7.81	9.88	10.94	12.19
Australia	19.75	15.10	11.25	10.85	10.90	11.50	11.55	12.87	13.20	13.15	13.60
Japan	7.03	4.34	3.90	3.85	3.80	3.80	3.75	3.80	3.84	3.97	4.15
New Zealand	20.00	24.25	17.70	17.00	17.35	n.a.	17.20	15.75	15.70	15.20	14.40
South Africa	13.35	8.55	8.90	9.60	10.25	10.90	11.85	12.65	12.10	12.65	13.60
Chile	22.42	19.56	15.25	11.35	10.69	21.41	20.84	11.09	9.90	n.a.	n.a.
Hong Kong	6.50	4.62	1.50	3.00	3.87	4.12	5.13	7.31	8.00	8.50	8.88
Indonesia	15.00	19.50	17.50	17.00	18.50	22.50	18.50	19.00	18.75	19.25	19.50
Korea	8.00	8.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50	n.a.	n.a.
Malaysia	8.20	6.00	n.a.	n.a.	n.a.	n.a.	3.70	3.85	3.85	3.55	n.a.
Philippines	14.61	8.31	10.55	12.12	10.21	11.30	12.75	12.75	13.00	13.50	13.50
Singapore	5.88	3.94	3.25	3.13	3.13	3.19	n.a.	n.a.	n.a.	n.a.	n.a.
Taiwan	4.10	3.87	3.09	4.12	4.47	4.23	4.48	4.30	5.29	n.a.	n.a.

Commercial bank deposit rates

at or near end of month

	1985	1986	1987	1988							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	7.72	6.26	7.10	6.67	6.57	6.69	7.05	7.54	7.65	8.11	8.38
Canada	7.75	7.95	8.40	8.50	8.45	8.60	8.91	8.99	9.25	9.36	n.a.
Austria	6.50	5.50	4.25	4.40	4.05	3.90	3.90	3.95	4.35	5.60	5.40
Belgium	9.63	7.44	6.69	6.31	6.25	6.19	6.00	6.06	6.25	7.13	7.43
Denmark	7.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.50	5.50	n.a.
Finland	10.75	13.36	10.12	9.10	9.54	9.62	9.41	9.35	9.15	9.45	10.60
France	6.24	8.19	8.63	8.19	7.69	8.25	7.69	7.31	7.19	7.25	7.81
Germany	4.40	4.80	3.50	3.20	3.20	3.25	3.40	3.40	3.30	4.90	5.25
Ireland	11.87	13.75	8.62	8.50	8.75	8.25	7.75	7.25	7.56	7.75	n.a.
Italy	13.21	10.69	n.a.	n.a.	n.a.	n.a.	9.50	9.50	9.50	9.30	9.15
Netherlands	5.81	6.06	4.50	4.21	3.94	4.00	4.06	4.06	4.44	5.31	5.56
Norway	12.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portugal	20.00	15.00	14.00	14.00	13.50	13.50	13.50	13.00	13.00	13.00	n.a.
Spain	9.64	8.67	9.48	9.39	9.30	9.17	9.05	9.03	9.04	9.96	n.a.
Sweden	12.18	9.93	9.45	9.55	9.55	9.95	10.95	10.60	10.45	10.65	10.90
Switzerland	4.50	4.25	3.37	1.44	1.56	1.63	1.88	2.50	3.06	3.75	3.44
United Kingdom	11.75	11.19	8.81	8.75	9.25	8.37	8.13	7.63	9.75	10.75	12.13
Australia	18.80	15.56	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	7.04	4.55	4.42	4.33	4.41	4.38	4.25	4.30	4.37	4.75	4.80
New Zealand	19.98	23.50	16.85	16.00	n.a.	14.60	15.50	15.50	15.30	15.00	14.05
South Africa	13.20	8.65	10.25	11.20	11.90	11.90	12.70	14.00	13.00	13.85	14.70
Argentina*	5.40	8.41	14.00	15.12	14.30	17.10	18.10	18.70	21.50	24.30	13.21
Brazil	18.00	220.00	517.36	524.40	554.64	536.08	660.50	692.71	658.19	783.62	n.a.
Chile	23.60	20.98	14.84	11.75	9.25	19.84	17.73	9.77	6.42	n.a.	n.a.
Hong Kong	6.50	4.62	1.50	3.00	3.87	4.12	5.13	7.31	8.00	8.50	8.88
Korea	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	n.a.
Malaysia	7.00	6.33	n.a.	n.a.	n.a.	n.a.	3.50	3.85	3.85	3.60	3.20
Mexico	72.90	94.30	120.35	118.99	118.80	75.97	53.01	45.27	32.57	29.90	29.90
Philippines	12.34	7.75	11.19	9.65	9.27	10.09	12.00	11.68	12.95	n.a.	n.a.
Singapore	5.26	4.00	3.13	3.06	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Taiwan	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	n.a.	n.a.
Venezuela	8.00	8.00	8.95	8.97	8.94	8.85	8.96	8.94	8.95	8.95	n.a.

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1985	1986	1987	1988							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	9.49	7.79	8.95	8.42	8.39	8.82	9.11	9.30	8.87	9.23	9.33
Canada	9.61	8.74	10.02	9.31	9.13	9.61	9.84	9.86	9.68	10.00	10.33
Austria	7.61	7.33	6.89	6.83	6.80	6.71	6.62	6.61	6.62	6.61	6.76
Belgium	9.60	7.70	8.04	7.58	7.38	7.65	7.62	7.89	7.88	8.05	n.a.
Denmark	9.67	11.70	12.05	11.18	10.91	11.22	11.44	10.71	10.38	10.19	n.a.
Finland	11.07	10.26	7.67	7.40	7.40	7.41	7.43	7.15	7.19	7.18	n.a.
France	10.47	8.94	9.99	9.49	9.11	9.36	9.26	9.09	8.82	9.07	9.29
Germany	6.57	6.25	6.51	6.50	6.28	6.30	6.53	6.66	6.67	6.86	6.81
Ireland	11.84	12.97	10.45	10.61	10.41	10.12	9.74	9.80	9.60	9.68	n.a.
Italy	13.66	10.05	10.50	10.29	10.30	10.29	10.39	10.49	10.47	10.61	n.a.
Netherlands	6.96	6.40	6.32	6.17	5.99	6.01	6.21	6.38	6.46	6.59	6.64
Norway	13.00	13.24	13.29	13.35	13.16	13.24	13.23	12.84	12.60	n.a.	n.a.
Portugal	16.64	14.49	14.82	14.72	14.47	14.05	14.09	13.48	n.a.	n.a.	n.a.
Spain	12.52	10.36	13.44	12.64	12.35	11.61	11.07	11.30	10.86	11.06	11.80
Sweden	12.11	10.66	11.39	11.30	10.96	11.05	11.41	11.21	11.06	11.26	11.37
Switzerland	4.42	4.05	3.95	3.94	3.93	3.92	3.77	3.98	4.01	4.29	4.26
United Kingdom	10.51	10.29	9.51	9.29	9.14	9.00	9.23	9.29	9.55	9.46	9.71
Australia	14.85	13.40	12.85	12.40	12.30	11.90	11.50	12.30	11.95	11.96	11.81
Japan	5.92	4.98	4.88	4.23	4.36	4.43	4.45	4.60	4.86	4.90	5.37
New Zealand	17.00	16.00	14.30	14.00	13.30	12.90	13.31	12.94	13.32	13.14	12.75
South Africa	18.09	15.06	15.70	16.80	16.52	16.60	16.48	16.40	16.06	16.17	16.08
Philippines	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.a.
Venezuela	12.00	12.00	12.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Commercial bank lending rates to prime borrowers

at or near end of month

	1985	1986	1987	1988							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	9.50	7.50	8.75	8.50	8.50	8.50	8.50	9.00	9.00	9.50	10.00
Canada	10.00	9.75	9.75	9.75	9.75	9.75	10.25	10.25	10.75	10.75	11.25
Austria	9.00	9.00	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.75
Belgium	11.50	9.75	8.75	8.75	8.50	8.50	8.50	8.50	8.50	9.00	n.a.
Denmark	8.50	8.00	9.50	9.50	9.50	9.50	9.50	9.50	9.25	9.25	n.a.
Finland	10.37	8.81	8.99	9.03	9.05	9.07	9.12	9.89	9.89	n.a.	n.a.
France	10.60	9.60	9.60	9.60	9.60	9.60	9.60	9.60	9.60	9.25	9.25
Germany	7.25	6.75	6.25	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Ireland	12.50	15.75	11.50	11.50	11.50	11.50	11.25	11.25	n.a.	10.75	n.a.
Italy	15.88	13.00	13.00	12.50	12.62	12.62	12.63	12.63	12.50	12.50	12.63
Netherlands	6.25	7.12	4.87	4.62	4.25	4.12	4.38	4.25	4.25	5.25	5.63
Norway	12.40	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portugal	22.50	17.50	18.50	18.50	18.00	18.00	18.00	17.00	17.00	17.00	n.a.
Spain	14.75	14.22	16.34	16.10	15.76	15.42	15.23	14.79	14.33	14.08	12.77
Sweden	15.05	11.50	11.50	11.50	11.50	11.50	11.50	12.00	12.00	12.00	12.00
Switzerland	6.00	5.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
United Kingdom	11.50	11.00	8.50	8.50	9.00	8.50	8.00	7.50	9.50	10.50	12.00
Australia	21.00	18.50	14.00	13.50	13.50	13.50	13.75	14.50	15.00	n.a.	n.a.
Japan	5.50	3.75	3.37	3.37	3.37	3.37	3.38	3.38	3.38	3.38	3.38
New Zealand	21.00	23.00	18.75	18.75	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
South Africa	16.50	12.00	12.50	13.00	13.00	14.00	14.00	15.00	15.00	16.00	16.00
Argentina*	7.30	11.30	14.80	15.80	15.00	17.60	17.92	19.50	22.70	25.60	14.04
Brazil**	19.00	250.00	19.50	12.68	13.65	13.70	11.20	13.70	12.40	12.10	15.70
Chile	33.34	29.13	30.99	21.22	20.51	25.49	31.64	21.88	18.51	n.a.	n.a.
Hong Kong	7.00	6.50	5.50	5.25	6.00	6.00	6.50	7.50	8.50	9.00	9.50
Indonesia	18.75	19.75	20.50	20.50	20.50	20.50	21.00	22.00	22.00	22.00	22.00
Korea	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	10.50	10.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mexico	65.66	95.33	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Philippines	15.00	10.50	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	7.20	6.10	6.10	5.98	5.93	5.85	5.85	5.85	5.85	5.85	6.05
Taiwan	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	n.a.
Venezuela	13.00	13.00	13.00	12.63	12.68	12.58	12.73	12.65	12.72	12.71	n.a.

*Percent per month.

**Spread above monetary correction until Feb 86; nominal rate of interest until Jan 87; spread above LBC rate thereafter.

Domestic corporate bond yields

long-term issues, at or near end of month

	1985	1986	1987	1988							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	10.15	8.88	9.90	9.38	9.45	9.85	10.25	10.38	10.13	10.20	10.10
Canada	10.74	10.18	10.95	10.37	9.96	n.a.	10.97	10.86	n.a.	n.a.	n.a.
France	11.76	10.18	10.92	10.38	9.91	10.03	9.78	9.77	9.60	9.40	n.a.
Germany	6.90	6.50	6.70	6.70	6.70	6.60	6.60	6.80	6.80	6.80	n.a.
Netherlands	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.t.	n.a.
Spain	14.92	13.40	15.12	13.66	12.96	12.54	11.28	11.51	11.83	11.87	11.14
Sweden	13.25	11.99	12.31	12.20	11.83	11.94	12.20	12.15	11.45	11.70	12.30
Switzerland	4.93	4.72	4.60	4.50	4.39	4.39	4.29	4.36	4.46	4.44	4.61
United Kingdom	11.47	11.71	11.11	10.76	10.82	10.66	10.55	10.69	10.79	10.86	11.12
Japan	6.79	5.93	5.32	5.06	5.03	4.99	4.93	4.95	4.97	n.a.	n.a.
Korea	13.60	12.80	12.80	12.80	13.20	13.70	13.90	14.90	15.10	15.20	n.a.
Venezuela	17.00	17.00	18.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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